Rating Rationale

Dawar Cements Pvt Ltd.

14 May 2018

Brickwork Ratings assigns rating for the Bank Loan Facilities amounting to Rs. 18.66 Crs of Dawar Cements Pvt Ltd.

Particulars:

Facility	Amount (Rs. in Crores)	Tenure	Rating Assigned*
Fund Based Term Loan	12.88	Long Term	BWR B+ (Pronounced as BWR B Plus) Outlook: Stable
Fund Based Working Capital Limit	5.78		
Total	18.66 (INR Eighteen Crores & Sixty Six Lakhs Only)		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of Dawar Cements Pvt. Ltd. (DCPL) up to FY17, publicly available information and information/clarifications provided by the company.

Rating derives comfort from the long experience of its resourceful promoters and average financial risk profile indicated by moderate gearing of the company. Rating is further strengthened by the moderate debt coverage metrics of the company.

The rating, however is constrained by company's small scale of operations, high inventory holding level and modest profitability margins. The rating also factors in susceptibility of company's margins to the volatility in the prices of raw material and the vulnerability of the company's operations to intermittent civil disturbances in J & K region. Rating is further restricted by the marginal market share of the company in cement industry.

Going forward, ability of the company to increase its scale of operations with sustained improvement in profitability margins shall be the key rating sensitivities.

Key Rating Drivers:

Strengths:

- **Moderate gearing & debt coverage metrics:** The company's gearing stood at 1.22 times in FY17 and the DSCR & ISCR stood at 4.05 times and 4.04 times respectively in the same period.

- **Experienced management & resourceful promoters:** Mr Javaid Ahmad Anim, the director who steers the operations of the company, has more than three decades of entrepreneurship experience.

Weakness:

- **Modest Scale of Operations:** Considering the presence of large number of manufacturers in the cement industry, the company's scale of operations are modest at a comparatively low revenue figure of Rs 16.83 Crore.

- **Frequent shut down in the market because of civil disturbances resulting in high volatility in revenues:** The revenues are declining on account of intermittent disturbances in J & K region. Further, application of GST in FY18 is further expected to strain the topline of the company in short to medium term. Market shut down has also resulted in inventory pile up for the company in FY17.

About the Company:

Dawar Cements Pvt Ltd. has its registered address at Arco House, Shallapora, Alochi Bagh, Batmaloo, Srinagar Jammu & Kashmir. The company was incorporated in 2002 and is engaged in manufacturing of cement. It is a private limited company limited by shares with authorised & paid up capital of Rs.42500000.00. The company uses raw material such as limestone, clay, iron ore, pet coke, gypsum & fly ash in its manufacturing process. The company sells its cement under the brand name of ARCO and through the distributors spread all over the state. The plant operates on Vertical Shaft Kiln Technology and has installed capacity of 200 tonnes per day. The company has recently expanded the installed capacity to 400 tonnes per day.

Rating Outlook: Stable

BWR believes that DCPL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company is able to post significant increase in its revenues with better margins. The rating outlook may be revised to 'Negative' if the scale of business declines further.

Company's Financial Performance:

The company booked total operating income of Rs 16.83 Crores in FY17 as against Rs. 23.62 Crores in FY16. PAT stood at Rs 0.30 Crores in FY17 as compared to Rs 0.48 Crores in FY16.

Parameters	FY 2016(A) (Rs. in Crores)	FY 2017(A) (Rs. in Crores)
Total Operating Income	23.62	16.83
OPBDIT	2.04	2.22
PAT	0.48	0.30
Tangible Net Worth	7.59	9.19
Total Debt/TNW	0.41	1.22

Rating History for the last three years:

	Rating Assigned in May 18			Rating History		
Facility	**Amount (Rs. in Cr)**	**Tenure**	**Rating**	**FY18**	**FY17**	**FY16**
Fund Based Term Loan	12.88	Long Term	BWR B+ (Pronounced as BWR B Plus) Outlook: Stable	**NA**	**NA**	**NA**
Fund Based Working Capital Limit	5.78					
Total	18.66 (INR Eighteen Crores & Sixty Six Lakhs Only)					

Status of non-cooperation with previous CRA: NA

Hyperlink/Reference to Applicable Criteria:

- **General Criteria**
- **Approach to Financial Ratios**
- **Service Sector**

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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